

HOUSE BILL REPORT

E2SSB 5581

As Passed House - Amended:

April 16, 2005

Title: An act relating to the strategic financing of life sciences research.

Brief Description: Establishing the life sciences discovery fund authority.

Sponsors: By Senate Committee on Ways & Means (originally sponsored by Senators Brown, Finkbeiner, Kohl-Welles, Rasmussen, Prentice, Hewitt, Fairley, Esser, Doumit, Keiser, Haugen, McAuliffe and Shin; by request of Governor Gregoire).

Brief History:

Committee Activity:

Technology, Energy & Communications: 3/29/05 [DPA];

Appropriations: 3/31/05, 4/7/05 [DPA(APP w/o TEC)].

Floor Activity:

Passed House - Amended: 4/16/05, 53-40.

Brief Summary of Engrossed Second Substitute Bill (As Amended by House)

- Creates the Life Sciences Discovery Fund Authority (Authority) as an agency of the state.
- Vests the powers of the Authority in a board of trustees, consisting of seven gubernatorial appointees and four legislative appointees.
- Directs the Legislature to transfer amounts received as Strategic Contribution Payments under the tobacco settlement to the Life Sciences Discovery Fund.
- Empowers the Authority to leverage public moneys in the Life Sciences Discovery Fund with amounts received from other public and private sources, in order to promote life sciences research.
- Authorizes the Authority to make grants from the non-appropriated Life Sciences Discovery Fund for the promotion of life sciences research to be conducted in the state.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: Do pass as amended. Signed by 10 members: Representatives Morris, Chair; Kilmer, Vice Chair; Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Ericks, Hudgins, Nixon, P. Sullivan, Takko and Wallace.

Minority Report: Do not pass. Signed by 1 member: Representative Sump.

Staff: Kara Durbin (786-7133).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass as amended by Committee on Appropriations and without amendment by Technology, Energy and Communications. Signed by 16 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Cody, Conway, Darneille, Dunshee, Grant, Haigh, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, McIntire and Schual-Berke.

Minority Report: Do not pass. Signed by 13 members: Representatives Alexander, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Armstrong, Bailey, Buri, Clements, Hinkle, Miloscia, Pearson, Priest, Talcott and Walsh.

Staff: Kristen Fraser (786-7148).

Background:

In 2001, at the request of Governor Locke, leaders from Washington's research institutions, industry, government, and the community developed the framework of an initiative, known as "Bio 21," that would capitalize on existing assets at the convergence of the life sciences and information technology. Bio 21 calls for the state to direct a combination of public and private funds to the research sector through Fiscal Year 2018 to support research and commercialization of life sciences and information technology. In 2003, the Legislature provided funds from the Tobacco Master Settlement Agreement to support further development of this initiative.

The Tobacco Master Settlement Agreement is an agreement between 46 states, the District of Columbia, six territories, and five major tobacco product manufacturers. Under the agreement, participating manufacturers agree to make specified payments to the state and agree to abide by extensive public health restrictions on the advertisement, promotion, and marketing of cigarettes. In exchange, the state agreed to release the participating manufacturers from claims by the states. Of that settlement, Washington is expected to receive approximately \$4 billion over a period of 25 years. Money was received under the settlement beginning in the 1999-2000 biennium and has been used to support tobacco prevention and control programs and as support for the Basic Health Plan and other health programs. In the 2002 legislative session, 29.2 percent of the revenue stream from the Tobacco Master Settlement Agreement was securitized, which made available to the state \$450 million.

Summary of Amended Bill:

The Life Sciences Discovery Fund Authority (Authority) is created as a public instrumentality and agency of the state. The powers of the Authority are vested in a board of trustees. The board of trustees is composed of two members of either the House Appropriations Committee or the House committee dealing with technology issues, one from each caucus, and two members of either the Senate Ways and Means Committee or the Senate committee dealing with technology issues, one from each caucus. Seven additional members are appointed by the Governor and confirmed by the Senate. Board meetings are subject to the Open Public Meetings Act. The Authority is subject to audit by the State Auditor and is advised by the Attorney General. The Authority staff are exempt from state civil service.

The Legislature is directed to transfer the Strategic Contribution Payments (SCPs) from the Tobacco Master Settlement Agreement to the Life Sciences Discovery Fund. The Life Sciences Discovery Fund is a newly created, non-appropriated account in the custody of the State Treasurer. Only the board or the board's designee may authorize expenditures from the fund.

The Authority also has the power to enter into agreements with public and private entities other than the state to receive funds. In exchange, the Authority promises to leverage those funds with amounts received from other public and private sources.

In addition, the Authority has the power to make grants to entities pursuant to contract for the promotion of life sciences research to be conducted within the state. The Authority shall solicit requests for funding and evaluate the requests by considering the following factors:

- the quality of the proposed research;
- the potential to improve health outcomes and lower health care costs;
- the potential for leveraging additional funding;
- the potential to provide health care benefits or benefit human learning and development;
- the potential to stimulate health care delivery, biomedical manufacturing, and life sciences related employment in the state;
- the geographic diversity of the grantees within Washington;
- evidence of potential royalty income and contractual means to recapture such income;
- and
- evidence of public and private collaboration.

By December 2005, the Authority must make recommendations to the Legislature regarding the potential for the state to receive royalty income and direct it to the higher education legacy trust fund.

By December 2006, the Authority must report to the Legislature on the anticipated return on investment to the state from investment of public funds in the Life Sciences Discovery Fund, including potential job growth, royalty income, intellectual property rights, and other significant long-term benefits to the state.

The income of the fund is not subject to business and occupation taxes. Certain information in grant applications is exempt from public disclosure which, if revealed, would reasonably be expected to result in private loss to the providers of the information.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect immediately, except section 14, relating to public records exemptions, which takes effect June 30, 2005.

Testimony For: (Technology, Energy & Communications) The Life Sciences Discovery Fund has three main goals: to keep life science research as an industry; to promote the next generation of predictive, preventive medicine; and to leverage these funds with other non-state funding sources. This fund needs full state funding, a true commitment, in order to adequately leverage these funds with private money. We need to send a strong message that this state is committed to life sciences research.

The Life Sciences Fund Coalition supports and sees value in legislative involvement in the Life Sciences Discovery Fund Authority. The issue of timing, especially in meeting grant deadlines, is critical. This type of research has the potential to vastly improve health care delivery in this state. All research institutions, both small and large, can participate and receive grant funding. This is part of the building blocks this state needs in order to have a comprehensive approach to biosciences.

The Washington Biotechnology and Biomedical Association strongly supports this bill. Washington State cannot afford to lag behind in the life sciences sector. Fourteen other states have targeted life sciences research; the competition is fierce.

The University of Washington and Washington State University support this bill. The most competitive applications will involve public and private collaboration. The leveraging potential for the Life Sciences Discovery Fund is great. There is a lot of exciting research going on right now in the area of agricultural research, much of which intersects with the life sciences.

Testimony For: (Appropriations) The current bill includes some important responses to issues that have been raised throughout the legislative process. In the area of agriculture, opportunities for agriculture research have been expanded in three areas of the bill. The second area of change involves governance. Members of the Legislature were added in the Senate and the Senate also confirmed the trigger mechanism for the release of the strategic payments. We feel that having legislators as trustees is the appropriate means to provide a legislative imprint on the grant process as opposed to requiring an appropriation of all grants, every year. There has been discussion on how to maximize the state's return on these investments and the bill does include royalty income as a factor for consideration of grant recipients. It is important to fully fund this initiative with the strategic bonus tobacco settlement funds. The policy has three major goals: (1) to promote the next generation of

health prevention; (2) to treat research as an industry; and (3) leveraging the bonus funds. We are very appreciative of the Legislature's consideration of this bill. We support the changes regarding governance made by the House, which allows the Legislature to be more directly involved in accountability and participate as Authority members. We think this is one of the most important pieces of legislation in terms of a proactive economic development vision for the state. We have been fortunate to have incredible growth in the number of private and non-profit institutions involved in the research economy. This bill is about the state of Washington sending a new message to both the country and the world that we intend to compete on a global economy for the next generation of jobs in this state. The core of the bill is the creation of this fund using tobacco settlement payments to leverage non-state funds to bolster the size of the fund. We anticipate a two to one return on grants made with state funds which will further increase the power of this program. By using the bonus payments, we will set in motion the opportunity to generate millions of additional dollars for our state institutions. There will be a potential for high wage jobs in all areas of the state. We want to increase the collaborative posture of our institutions, both public and private.

Testimony Against: (Technology, Energy & Communications) The Washington State Catholic Conference opposes this bill. The Catholic church does support adult stem cell research to help patients who are suffering. We have two main concerns with this bill. First, we have concerns that this type of research is going forward without the ethical implications being resolved. The potential for scientific advancement does not justify destroying embryonic stem cells. Our second concern is fiscal; we believe this money would be better spent on basic health services for low-income people.

The definition of life sciences research is so broad that it may encompass unethical practices such as human cloning. The prohibition on human cloning is not clear enough to prohibit embryonic research and other types of questionable research. Human embryonic research is unsafe and unnecessary. All of this research involves taking a human life, and it is not clear that this type of research will ever be successful. There are not enough human embryos left over in the invitro clinics to do widespread research in this area. The only way to do this is to create embryos specifically for their destruction. It is improper for the state to invest in this area; it amounts to gambling of public funds.

Testimony Against: (Appropriations) We have fiscal concerns with the legislation. One of the main focuses of the bill is improved health outcomes. We are not sure if these potential innovations will be created and how they will translate into improved healthcare outcomes for people in the state. There are a large number of people who currently don't have access to basic healthcare. The \$350 million would be better spent by providing preventative health care services so those individuals are not coming back to the state with catastrophic problems.

Persons Testifying: (Technology, Energy & Communications) (In support) Marc Baldwin, Office of the Governor; Bill Grinstein, Pacific Northwest National Laboratory and Life Sciences Coalition; Linda Hull, Washington Biotechnology and Biomedical Association; Randy Hodgins, University of Washington; and Larry Ganders, Washington State University.

(Opposed) Matt Muckler, Washington State Catholic Conference; Sharon Quick, M.D., American Academy of Medical Ethics; and Bob Higley, Washington Evangelicals for Responsible Government.

Persons Testifying: (Appropriations) (In support) Laurie Dolan, Office of the Governor; and Shan Mullin and Brad Jurkovich, Washington Life Sciences Coalition.
(Opposed) Matt Muckler, Washington State Catholic Conference.

Persons Signed In To Testify But Not Testifying: (Technology, Energy & Communications) None.

Persons Signed In To Testify But Not Testifying: (Appropriations) None.